

Impact of Service Quality and Customer Satisfaction on Customer Loyalty in a Microfinance Institution in Tanzania

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Abstract – This proposed study examines the effectiveness of service quality and customer satisfaction of individual customers and Small and Medium Enterprises (SMEs) and its impact on loyalty of a microfinance institution in Tanzania. Target population came from five districts in Dar-es-Salaam region: Ilala, Kigamboni, Kinondoni, Temeke, and Ubungu; as well as Madibira, Iringa region. The study involved a survey design and primarily employed Pearson correlation, F-test using Analysis of variance (ANOVA), one-sample t-test, and multiple regression to estimate the impact service quality and customer satisfaction on firm loyalty. Purposive sampling and convenience sampling techniques were used in determining our sample. A survey research questionnaire that combines both open ended and closed ended questions was used. Based on the results of research, it was found that there is a significant and positive relationship between service quality and all its dimensions and customer satisfaction and customer loyalty. Also, customer satisfaction and customer loyalty are positively and significantly associated, thus improving a microfinance institution. Based on the findings and conclusion of the study, it is recommended that the ultimate priority of the respondent microfinance institutions should repose on empathy and assurance, bearing in mind the significant relationship of these two dimensions on customer loyalty. Further, the microfinance institutions should put more emphasis on the provision of quality products as well as charging fair credit prices (i.e. interest rates) to their customers.

Keywords: Service Quality, Customer Satisfaction, Customer Loyalty.

I. INTRODUCTION

Background of the study

Customers are the link to a business excellent performance and success. A business organization should focus on a huge number of customer, for this customer satisfaction, loyalty and enthusiasm should be incorporated along the long-term goals of the business entity.

Focusing on customer satisfaction has been the key to increasing service quality according to customers' expectations in the banking sector. It is suggested that the level of service quality is an indication of the organization's ability to meet customers' desires and demands. Therefore, organizations must become better in their services to meet the customers' needs and requirements. Managers depend on customers' anticipation of service quality for the competition in the market. When customers are satisfied, they remain loyal to the bank and stay there for long. For bank to effectively compete in the environment in which they operate, they should analyse their market in order to gain a real understanding of what their customer needs. Bank need to diagnose the customer needs and wants and design method to satisfy them. Furthermore, banks must analyse the strength and weaknesses of their competitors, they must exploit the weaknesses and try to second guess the competitors strategies (Ali, et al., 2016).

Ensuring customer satisfaction and their long term retention is one of the most important tasks for the management of a service company. A high level of customer satisfaction is the main tool for creating long-term loyalty, business stability, growth and long term development of the company. Customer satisfaction is a very important aim and instrument for managing a modern company that is faced with new challenges in a contemporary environment. In the changing banking scenario of the 21st century, banks need to have a vital identity to provide excellent services. Banks have to be of world-class standard, committed to excellence in service delivery, and to play a major role in the growing and diversifying financial sector (Apondi, 2016). There has been a remarkable change in the way of banking in the last few years.

Customer loyalty is necessary for business sustenance, growth and profitability. Many authors argue that competition among organisations is a pointer to the importance of customer loyalty (Prentice & Correia-LOureiro, 2017). Bearing this in mind, it is safe to suggest that without customer patronage of business products and services, enterprises would find it difficult to survive.

Microfinance sector across the world and specifically in Tanzania has also recognized the importance of customer satisfaction. The focus of microfinance institutions and banks has been shifted from customer

acquisition to establishing, maintaining and long lasting, satisfying relationship with its customers. Considering the importance of customer satisfaction a very little research work has been carried out in the context of microfinance banks in Tanzania.

This study is focused on identifying basic factors which determine customer loyalty, satisfaction and enthusiasm in a microfinance industry which is characterized with fierce competition and more demanding customers. The only way to profitability, path to prosperity and long-term survival in such competitive environment, resides on satisfaction (Ali, et al., 2016). Therefore the focus of this study is to address this issue and identify factors that contribute to customer satisfaction in microfinance banking industry.

Problem Statement

Customer loyalty, a major theme in marketing research, has become an essential concern for managers, and a strategic obsession for many. This increasing concern has mainly been due to intense competition, particularly in service industries, and the current focus on the relationship between consumers and organizations, which is the core of the relational marketing approach.

Loyalty programmes are used by organisations to drive sales growth. Following global practices, organisations ranging from airlines, telecommunications companies, hospitality businesses, restaurants, fast moving consumer goods (FMCG) companies have over the years employed loyalty programmes. In the last decade, banks also started using loyalty programmes to drive sales, retention and revenue growth.

Similarly, Customers have also become increasingly conscious of their value to their microfinance institutions. Due to the highly competitive nature in the microfinance sector, microfinance institutions have become more interested in assessing their customers' satisfaction, being aware that the higher the customer satisfaction, the greater the inelasticity of demand for their products. Thus, microfinance institutions need to determine the factors that affect customer satisfaction, in order to assess the congruence between customer expectations and the banking services offered and identify their major advantages and disadvantages vis a vis competition.

While research exists on the effect of loyalty programmes in other industries, a study with focus on the Tanzanian microfinance sector is necessary. Loyalty programmes differ across customer segments and markets (Dorotic, et al., 2012), so This study aims to explore, through a survey, the potential impact of customer enthusiasm on customer satisfaction of microfinance institutions service and customer loyalty. The study will enable the researcher to examine and know if the capital invested by Tanzanian microfinance institutions is worth them exploring loyalty programmes as a means of satisfying customers and retaining them. This study will focus on individual customers and SMEs (i.e business to consumer).

Research Objectives

The aim of this research is to evaluate the impact of loyalty, satisfaction and enthusiasm programmes on customer retention in the Tanzanian microfinance sector.

The research will explore the views of both customers and microfinance institutions executives on the effectiveness of loyalty and satisfaction programmes on the retention of individual customers and SMEs. The study will be bound within four key objectives.

- (i) To explore the underline dimension and determinants of service quality (reliability, responsiveness, assurance, empathy, and tangibles) and how they affect customer's loyalty in Microfinance institution of Tanzania.
- (ii) To explore the underline dimension and determinants of customer satisfaction (product quality, customer service, price satisfaction, brand trust, and corporate image) and how they affect customer's loyalty in Microfinance institution of Tanzania.

Research Hypotheses

The proposed study is thus hypothesized as follows:

H0: Service Quality has no effect on the Customer Loyalty

H1: Service Quality is positively associated with Customer Loyalty.

H0: Customer satisfaction has no effect on the Customer Loyalty

H2: Customer Satisfaction is positively associated with Customer Loyalty.

II. LITERATURE REVIEW

2.1 Introduction

With regard to the competitive environment, there is a need for micro-finance institutions to plan their business strategies that differentiate them from others. This can be achieved through the delivery of high service quality. The practice of excellent service quality has been proven customer satisfaction will significantly lead to

customer loyalty. Customer satisfaction is one of the most important issue concerning business organization of all types (Foji, 2017).

Customer loyalty and satisfaction is vital for modern day business for two main reasons. First, customers are scarce resource it is far easier to obtain from an old customer than from a new one. Second, customer loyalty and satisfaction has a positive effect on the profitability revenues of the company (Rosenberg & Czepiel, 2017).

2.2 Theoretical Literature Review

2.2.1 Service Quality

Servqual is a model that was made by Parasuraman, Zeithaml, and Berry in 1985 to help businesses measure and control the quality of their services. The model uses questionnaires, surveys, and other qualitative research methods, businesses to learn about their customers' experiences (Bhasin, 2023).

The Servqual model is based five key dimensions, namely; tangibles, reliability, responsiveness, assurance, and empathy map. These are known as the best predictors of service quality.

2.2.2 Customer Satisfaction

Customer satisfaction has been extensively studied in marketing over the last few decades. However, marketing scholars have not yet agreed upon a generally accepted definition of satisfaction. Customer satisfaction measures how your customer feels about your product or brand. It is calculated based on some qualitative questions sent in a survey and finally understood in terms of a score. That is called a CSAT score (Ahmed, 2020).

Customer satisfaction is a measure of how the products and services provided by a company meet or exceed customer expectations (Fornell, 1992). As such customer satisfaction metrics indicate how successful an organization is at providing products and/or services to the marketplace (Fornell, 1992).

2.2.3 Customer Loyalty

Many service organizations have developed customer loyalty programs as a part of relations development activities. According to Ahmed (2020), customer loyalty is a complicated concept. Customer loyalty is the attitude a customer demonstrates by showing loyalty towards your brand. The author points out that naturally, this goes much beyond mere customer satisfaction. While having high customer satisfaction is good, customer loyalty is an even greater attribute to have for any company.

A loyal customer spreads a good word about your brand and would not leave you for any other competitor. Hence, through this concept, we can say that every loyal customer is a satisfied customer but not every satisfied customer is a loyal one (Ahmed, 2020).

Customer loyalty is defined as a commitment to continue purchasing a preferred product or service consistently regardless of situational factors and marketing efforts which might result in switching behaviour (Chiguvu & Guruwo, 2017).

According Mellroy and Barnett (2000), loyalty is a customer's commitment to do business with a given organization, to purchase its goods or services repeatedly and to recommend them to colleagues. The relationship was argued to continue as long as customers feel they are receiving better value than they would obtain from rival suppliers (Mellroy & Barnett, 2000). Customer loyalty is formed by sustained satisfaction of the customer accompanied by emotional attachment formed with the service provider that generates willingness and consistence in the relationship with preference, patronage and premium (Rai & Medha, 2013).

2.3 Empirical Literature Review

Satisfaction has a direct influence on loyalty and consumer satisfaction leads to consumer retention, and affects purchase intention (Irshad, et al., 2017). Therefore, an increase in the level of satisfaction will lead to an increase in the volume of purchases and recommendations of goods or services to other potential consumers which of course will have a long-term effect on the sustainable profitability expected by the company (Greenwell, et al., 2002). This is considered capable of increasing customer loyalty (Haeruddin, 2018).

Based on empirical study by Haeruddin and Haeruddin (2020), using the f test, it was found that together the variables of overall customer satisfaction, customer satisfaction dimensions, confirmation of expectations, re-purchase interest, willingness to recommend, and customer dissatisfaction together have a significant effect on customer loyalty.

For managing customer satisfaction and loyalty, it is necessary to identify the antecedents of these constructs. Several scholars have suggested that express image, may generate more loyalty consumers (Bennet & Rundle-Thiele, 2005; Nandan, 2005). Empirical evidences have confirmed that image does impact satisfaction; which in turn led to loyalty in many industries (e.g., Bloemer & Ruyter, 1998). However, the impact of image on satisfaction required more validation, as some contradictory results can be observed in marketing literature (Palacio, et al., 2002).

Chiguvi and Guruwo (2017) conducted a study to establish the impact of customer satisfaction on customer loyalty in the banking sector. It was hypothesised that customer satisfaction had a positive influence on customer loyalty. The second aim of the research was to determine moderating variables for the relationship between customer satisfaction and customer loyalty. The research study showed that there was a moderate positive relationship between the variables as depicted by a beta weight of 0.514 at a significance level of 0.000. On the second objective, moderated multiple regression analysis was used and evidence proved that gender, consumer age, income and educational qualifications played partial moderating roles on the relationship between customer satisfaction and customer loyalty. Using the findings of this study, the researcher concluded that companies had to influence customer satisfaction positively with the prime aim of achieving customer loyalty.

A Regression analysis by Khan and Fasih (2014) on the impact of service quality on customer satisfaction and customer loyalty in banking sector found a positive and significant association of assurance, service quality, reliability, tangibles and empathy with customer loyalty. Thus, satisfaction is an important factor in the financial sector as it leads to customer loyalty.

Financial institutions, especially those that lend to small businesses, should focus on the quality of customer service to attract them to take more loans so that they can develop their businesses. And when they are well served, they become good ambassadors of those institutions. In this context, a regression analysis by Apondi (2012) found a positive and significant relationship between service quality, customer satisfaction and customer loyalty. Service quality and customer satisfaction were also found to be the critical success factors that influence the competitiveness of an organization. Similarly, an empirical study by Ali, et al., (2020) found an independent and positive relationship between service quality dimensions are independent and customer satisfaction and loyalty.

In another study, Liu and Wang (2017) discovered that an enterprise that enhances the service quality can positively influence customer and hence promote the corporate performance.

2.4 Conceptual Issues

Product quality:

One of the important element in the business word is providing value to customers which does not only include objects that are tangible but also objects that are intangible, that is including packaging, service characteristics, brand name as well as performance quality. Customer's satisfaction and value is thus linked to a product's quality which has a significant impact towards service performance or the product (Kotler & Armstrong, 2012). However, according to Rust, et al., (2002), the term quality has been so overused that its meaning is not easy to determine because of the so much attention that have been devoted by academics and practitioners. Moreover, most authors accept the qualification of product quality by Zeithaml (1988) which states that, product quality is defined based on either extrinsic cues that is the external quality or the intrinsic cues which is the internal quality of a product. Customer's perception regarding extrinsic cues such as warranty, brand, country of origin or price according to Teas and Agarwal (2000) is based on the quality externally. The dimensions of product quality according to Winder and Judd (1996) and Charan (2003) is the totality of product characteristics that has the capability or capacity of satisfying the expectations of consumers. Clients will be highly happy and consider that a product is of higher quality and is acceptable when a product meets their expectations.

Customer Service:

Customer service is the support you offer your customers, both before and after they buy and use your products or services, that helps them have an easy and enjoyable experience with you. Offering amazing customer service is important if you want to retain customers and grow your business. Today's customer service goes far beyond the traditional telephone support agent (Salesforce, 2020).

No matter how you define customer service, there eight tried-and-true customer service principles that can help you transform your support operations and deliver the best customer service experience every time (Salesforce, 2020).

Price:

According to Kotler & Armstrong (2001) what is meant by price is the amount of money exchanged for a product or service. According to Ali (2008) prices are all forms of monetary costs sacrificed by consumers to obtain, own, utilize a number of combinations of goods and services from a product. Price concerned with selling prices which is in accordance with the quality of goods and can be reached by consumers. From some of the above, it can be concluded that the price is the amount of money that must be spent to replace it with a product. Past research suggests that prices have a significant impact on customer loyalty.

Customer satisfaction:

When the goods and services fulfill the need and demands of the customer at an extreme level the customer is said to be satisfied. Services and product attributes and the product itself give pleasure and satisfaction to the customer, the customer is said to be satisfied (Abbas & Islam, 2021). A pleasant feeling customers derived or a disappointment that occur when they compare their own expectations to a product's perceived outcome (performance) was regarded by Kotler and Keller (2005) as satisfaction. Moreover, customer satisfaction occurs when the customer's perception of received value in a transaction is equivalent with the perceived service quality relative to the client's costs of acquisition and price (Jahanshahi, et al., 2011). Though customers repurchase intentions and behavior are seen to be influenced by customer satisfaction (Tu, et al., 2013) thereby impacting positively on the profit of the organization as well as future revenue. Satisfaction of customers is their feedback in the form of evaluation after actual purchasing and using a product and also comparing it with their own expectations and desires (Woodruff, et al., 1997).

The extent to which product performance perception matches the expectations of buyers is what customer satisfaction is all about (Kotler and Armstrong, 2012). There are various indicators of customer satisfaction which include: repurchase interest, loyalty, small desire and intention to make a complain, satisfaction, the reputation of the company and the willingness to recommend the product (Kotler & Keller, 2005).

Customer loyalty:

Is the purchase behavior of the buyer in which he/she buy again and again the same brand product and services in the future regardless of rival efforts? Loyalty can be something about the customer thinking about the product. None of the scholar ye gives the proper definition to the customer loyalty but there are different concepts about it (Abbas & Islam, 2021).

Customer loyalty is one of the purposes companies are marketing strategy implementation. Musanto (2004) points out that the behavior of customers who buy a product continuously and to establish customer loyalties to a particular organization is what known as loyalty. Loyalty is the commitment customers have to a certain supplier, brand or store which reflected based on their positive behavior throughout their repeat purchase (Mittal, et al., 2004). The company's main purpose in establishing as well as creating a relationship with their clients is to create or build loyalty behavior that is very strong.

Customer loyalty dimensions are four categories Griffin (2002), namely: 1) Make purchases regularly; Customers will make purchase regularly when they engage in a transaction with the organization thereby deriving satisfaction with what the process. 2) Clearly demonstrate immunity to the pull of rivals; Clients are confident with the usage of the products thereby making it very hard for them to easily switch to other competitor's products because they have confidence in the company and its brand. 3) Recommend products to others so as to make them good spokesperson to other customers and a greater asset to the organization besides recommending the products and brands of the company to others. 4) Buy inter-line products and services; here, customers may add other items from the purchased product because they are not just purchasing one category of product after another, but they are purchasing for their product accessories as well.

Brand trust:

According to Delgado (2004) brand trust is the expectation of brand reliability and good intentions. Where the brand reliability or reliability of brands rooted in consumer confidence that the products are able to meet the promised value. While the intention is brand consumer confidence that the brand is able to prioritize the interests of consumers when problems in the consumption of the product appear unexpectedly. The second component of brand trust rests on a subjective consumer rating.

Corporate image:

In a competitive business climate, many businesses actively work to create and communicate a positive image to their customers, shareholders, the financial community, and the general public. A company that mismanages or ignores its image is likely to encounter a variety of problems (Young, 1996).

According to Abbas and Islam (2021), brand Image contains how consumers respond to the benefits of its different features which the brand provides to the consumer. The authors suggest that brands can be built through a different process. In the first step make the strategy of the brand and combine it with the business goals. In the second step, we use all our tools to inform the consumer about our brand or the product and services. And the third step to make changes in the brand from time to time with new features and technology which benefit the consumer. The Image of the Brand varies with the perception of the customer. Its example is some consumer-like low price and good quality this low price and high quality make the Image of the Brand. Some consumers like the best and unique quality at any cost. These consumers also think the Brand has a good image and we also advise others to use the products of that brand. Image of the Brand shows the quality of the

organization not the colors, name, and logo of that brand. The Image of the Brand becomes stronger when the organization updates its brand faster than rivals. The key role of a Brand is to help the consumer to differentiate the products and services foundations, manufacturing, and differentiate the products and services from rivals/competitors. The image of the brand can become stronger when the brand satisfies the needs and demands of the consumers. If the brand image is positive which will lead to understanding the consumers about the business and the brands? Brand image in terms shows the purpose of your businesses and attracts buyers.

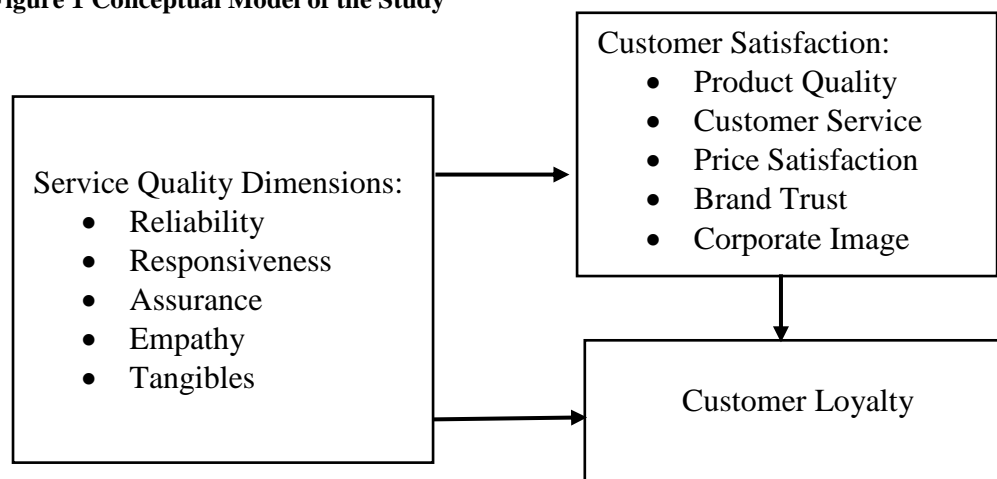
Empathy:

Empathy is the capacity to understand or feel what another person is experiencing from within their frame of reference, that is, the capacity to place oneself in another's position. Definitions of empathy encompass a broad range of social, cognitive, and emotional processes primarily concerned with understanding others (Chism & Magnan, 2011). Types of empathy include cognitive empathy, emotional (or affective) empathy, somatic empathy, and spiritual empathy.

Empathy means that an individual can correctly perceive the current emotions of others. It can stimulate individuals' altruistic motivation and trigger their prosocial behavior. Its goal is to relieve others' difficulties and increase others' welfare (Wei, et al., 2022).

A model explaining the above-mentioned variables, is represented in Figure 1.

Figure 1 Conceptual Model of the Study



III. RESEARCH METHODOLOGY AND DESIGN

3.1 Introduction

This section discusses the research methodology that was used for the study. Research Methodology gives details regarding the procedures used in conducting the study. The research design, target population, data collection and analysis methods are elaborated.

3.2 Research Philosophy

Research philosophy is of paramount importance in any research undertaking in the course of developing foundation of knowledge. It consists of assumptions that helps to clarify the research strategy/design that has to be adopted and choosing the appropriate one (Saunders, et al., 2007). For this study, we adopted a positivistic research philosophy, which is quantitative, objective and scientific in nature so as to investigate the relationship among the variables under study (Collins & Hussey, 2009). The positivistic paradigm was used to deduce the formulated hypotheses, variables and operational definitions on the existing theories of customer loyalty and satisfaction.

3.3 Research Design

This study will adopt a descriptive-correlation research design. The study has been designed to determine the role of enthusiasm and customer satisfaction on customer loyalty in a microfinance institution in Tanzania. A survey research questionnaire that combines both open ended and closed ended questions were used. Cooper & Schindler (2008) define descriptive research as a study that attempts to describe or define a subject, often by creating a profile of a group of problems, people or events, through the collection of data and the tabulation of the frequencies on research variables or their interactions. It concerns a univariate question or hypothesis in which the research asks about or states something about the size, form, distribution, or existence

of variable. It is restricted to a fact finding and may result in the formation of important principle of knowledge and solutions to significant problems. According to Saunders, Lewis, & Thornhill (2007), surveys allow the researcher to summarize the characteristics of different groups or to measure their opinions towards some issues.

3.4 Target Population

Bryman and Bell, 2007 define population as the universe from which the sample is to be selected. The target population of this study was 400 individual customers and small and medium enterprises (SMEs) customers in Tanzania, as computed in section 3.5.1.2 below.

3.5 Sampling frame

A list was obtained from microfinance institutions in the five districts in Dar es Salaam region and Madibira showing the number of individuals and small and medium enterprises (SMEs), which undertake different business activities like service, manufacturing, garment & textile, metal & woodworks, construction, food & beverage, production, publishing, etc.

3.5.1 Sampling Method and Sample Size

3.5.1.1 Sampling Method

Sampling techniques provides a range of methods that enable you to reduce the amount of data you need to collect by considering only data from a subgroup rather than all cases or elements.

A non-probability sampling method mainly purposive sampling and convenient sampling methods were used in the sample size of respondents who participated in the study. Saunders, Lewis, and Thornhill (2007) posit that it is commonly called a judgmental sample that enables you to use your judgement to select cases that will best enable you to answer your research question(s) and to meet your objectives. The subjects were selected because of some specific characteristic the research is looking for, and depending what is investigated.

3.5.1.2 Determination of Sample Size

The study initially targeted to obtain the entire population of 3,000 microfinance beneficiaries scattered in different five districts of Dar-es-Salaam region, and Madibira, in Iringa region, Tanzania. Since, the study population is known, a smaller sample was taken using a random sampling technique known as Slovin's formula, which allows a researcher to sample the population with a desired degree of accuracy (Stephanie, 2013). With regard to the level of accuracy, we used a confidence level of 95% as suggested by Kothari (2005), this means that there are 95 chances in 100 (or .95 in 1) that the sample results represent the true condition of the population within a specified precision range against 5 chances in 100 (or .05 in 1) that it does not. The slovin's formula is calculated as follows:

$$n = \frac{N}{1 + Ne^2},$$

where

n= Number of samples or sample size

N= Total population

e= Error tolerance

Hence,

$$n = \frac{3000}{1 + 3000 \times (0.05)^2}$$

$$n = \frac{3000}{3000 \times 0.0025}$$

$$n = \frac{3000}{7.5}$$

$$n = 400$$

Therefore, our sample size will consists of 400 customers (that is, individual and SMEs customers).

3.6 Data Collection

The researcher collected only primary data, but also document review was done. A structured questionnaire was administered to the 400 individual customers, small and medium entrepreneurs (SMEs) from Ilala, Kigamboni, Kinondoni, Temeke, Ubungo, and Madibira.

3.6.1 Instruments

In this study, both closed ended and open ended questions were used. All questionnaires were translated into Kiswahili first. According to Bryman & Bell (2007), closed-ended questions are advantageous because the questions enhance the comparability of answers, making it easier to show the relationship between variables and to make comparisons between respondents or types of respondents. Also, responses are easily tabulated and analyzed and respondents can answer the questions easily and quickly.

3.7 Data Analysis

After all primary data were collected; the researcher classified it in accordance with variables. This study was analyzed using hypothesis testing with multiple regression analysis with the help of the Statistical package for social sciences (SPSS) computer program, version 24 to perform the f-test, t-test, and the calculation of R square (r²). It was used to generate descriptive statistics and percentages and frequencies for variables and statistical tests.

IV. RESULT AND DISCUSSION

4.1 Regression Analysis

4.1.1 The Relationship between Service Quality and Customer Loyalty

We analyzed the relationship between service quality and customer loyalty through a simple linear regression model which was used to observe the effect of service quality in predicting the variations in customer loyalty. In our model, service quality (SQ) was the independent variable and customer loyalty (CL) was the dependent variable:

$$\text{Customer loyalty (CL)} = \beta_0 + \beta_1(\text{SQ}) + \varepsilon$$

Where: CL = customer loyalty

β_0 = Intercept or constant

β_1 = Slope

SQ = Service quality

ε = Error or random term.

Table 4.1 shows the results for the model.

Table 4.1: Regression Result for Service Quality and Customer Loyalty

R	R Square	Adjusted R Square	Std. Error of the Estimate	F Change	Change Statistics df1	df2	Sig. F Change
0.77	.6884	.57	.65593	2.980	1	104	.0451

Model	Sum of squares	Df	Mean Square	F	Sig
Regression	49.140	6	12.5343	24.881	0.002 ^b
Residual	29.821	394	0.6392		
Total	78.961	400			

	Unstandardized Coefficients		Standardized Coefficients		Model Sig.
	B	Std. Error	Beta	T	
(Constant)	.513	.162		3.5	.023
Service quality	.86931	.367	0.244	2.353	.020

The research results indicate that service quality and customer loyalty are positively and significantly associated 0.020 (p<0.05); hence a null hypothesis was rejected. A statistical significance (F-value=24.881; p=0.001) was determined. R² was 0.6884 or 68% which was significant at 0.01 level. This implies that service quality explained about 68% of the variation in customer loyalty. This study established that customer loyalty to a microfinance institution was dependent on service quality.

The results are consistent with prior studies that suggest that there is a significant and positive relationship between service quality and all its dimensions and customer satisfaction and customer loyalty (Khan, 2014; Kheng, et al., 2010). Similarly, an empirical study by Fida, et al., (2020) showed a significant relationship between service quality, customer satisfaction, and customer loyalty. Their findings also

demonstrated that there is a significant positive relationship between responsiveness and empathy dimensions on customer satisfaction.

We did a further analysis concerning the relative importance of the service quality dimensions using a regression model. Table 4.2 shows the results of the regression model.

Table 4.2: Regression Results for the Service Quality Dimensions

Model Summary					
Model	R	R Square	Adjusted R Square	Standard error of the estimate	
1	0.83044 ^a	0.6897	0.61	3.40806	

ANOVA ^b						
Model		Sum of Squares	Df	Mean square	F	Sig.
1	Regression	1139.06	5	227.81		0.00
	Residual	4390.42	37	11.61	19.614	0 ^a
	Total	5529.49	33			
			3			

c) Coefficients						
Model		Unstandardized coefficients	Standardized coefficients			
		B	std. Error	Beta	T	Sig.
	Constant	19.671	0.273	-	15.45	0
	Tangibility	0.074	0.056	0.029	1.324	0.01
	Assurance	0.171	0.116	0.277	1.481	0.02
	Empathy	0.191	0.115	0.300	1.663	0.04
	Reliability	0.23	0.063	0.237	3.668	0
	Responsiveness	0.023	0.08	0.089	0.292	0.03

It can be seen from Table 4.2(c), we used beta values to measure the variation in customer loyalty which indicated that empathy ($\beta = 0.300$) contributed to the highest variability followed by assurance ($\beta = 0.277$), reliability ($\beta = 0.237$), responsiveness ($\beta = 0.089$) and tangibility ($\beta = 0.029$), respectively.

This implies that employees' sense of caring of customers as well as providing individualized attention to them, make customers to feel like they are more than a business transaction. Customers feels that they are being cared for, they will always want to build a relationship with your business which will last longer. Survey Monkey (2024, p. 1) points out that “showing empathy to customers means ensuring your company showcases your care. Training employees on providing excellent and empathetic service, where smiles and engaging conversation occur regularly, can help you exceed expectations”.

4.1.2 The Relationship between Customer Satisfaction and Customer Loyalty

We also used a simple regression to assess the effect of customer satisfaction on customer loyalty, so as to observe the influence of customer in predicting the variations in customer loyalty. In this model, customer loyalty (CL) is presented as the dependent variable whereas customer satisfaction (CS) is presented as independent variable:

$$\text{Customer loyalty (CL)} = \beta_0 + \beta_1(SC) + \varepsilon$$

Where: CL = customer loyalty

β_0 = Intercept or constant

β_1 = Slope

SC = Service quality

ε = Error or random term.

The results for the model are shown in Table 4.3.

Table 4.3: Regression Result for Customer Satisfaction and Customer Loyalty

R	R Square	Adjusted R Square	Std. Error of the Estimate	F Change	Change Statistics df1	df2	Sig. F Change
0.82	.6662	.62	.74631	23.773	14	106	2.072

Model	Sum of squares	Df	Mean Square	F	Sig.
Regression	49.3661	6	15.2815	23.974	0.00 ^b
Residual	39.2552	394	0.4275		
Total	88.6216	300			

	Unstandardized Coefficients		Standardized Coefficients		Model Sig.
	B	Std. Error	Beta	T	
(Constant)	.633	.162		3.3	.021
Customer satisfaction	1.353	.467	1.244	2.881	0.03

Dependent variable: Customer loyalty

The results indicate that customer satisfaction and customer loyalty are positively and significantly associated 0.03 ($p < 0.05$); thus the null hypothesis was rejected. A statistical significance ($F = 23.974$; $p = 0.001$) was determined. R^2 was 0.6661 or 66% which was significant at 0.01 level. This implied that customer satisfaction explained about 66% of the variation in customer loyalty. This study established that customer loyalty to microfinance institutions was dependent on customer satisfaction.

The results concur with a study by prior studies that suggest that there is a significant and positive relationship between customer satisfaction and customer loyalty (Khan, 2014; Kheng, et al., 2010). Similarly, an empirical study by Fida, et al., (2020) showed a significant relationship between customer satisfaction, and customer loyalty. Their findings also demonstrated that there is a significant positive relationship between responsiveness and empathy dimensions on customer satisfaction. This means customers will recommend the microfinance institutions to other potential customers.

We did a further analysis concerning the relative importance of the customer satisfaction dimensions using a regression model. Table 4.4 shows the results of the regression model.

Table 4.4: Regression Results for the Customer Satisfaction Dimensions

Model Summary				
Model	R	R Square	Adjusted R Square	Standard error of the estimate
1	0.87045 ^a	0.6995	0.63	3.32807

ANOVA ^b						
Model		Sum of Squares	Df	Mean square	F	Sig.
1	Regression	1331.05	5	236.81		0.00
	Residual	4397.41	37	12.51	19.436	0 ^a
	Total	6531.49	33			
			3			

c) Coefficients						
Model		Unstandardized coefficients	Standardized coefficients			
		B	std. Error	Beta	T	Sig.
	Constant	18.981	0.280	-	16.11	0
	Product Quality	0.084	0.066	0.465	1.316	0.02
	Customer Service	0.201	0.109	0.250	1.671	0.03
	Price Satisfaction	0.190	0.116	0.323	1.762	0.04
	Brand Trust	0.33	0.073	0.045	3.486	0
	Corporate Image	0.031	0.06	0.079	0.289	0.03

It can be seen from Table 4.2(c), we used beta values to measure the variation in customer loyalty which indicated that product quality ($\beta = 0.465$) contributed to the highest variability followed by price satisfaction ($\beta = 0.323$), customer service ($\beta = 0.250$), corporate image ($\beta = 0.079$) and brand trust ($\beta = 0.045$), respectively.

This implies that the quality of the product will maintain a high level of customer satisfaction, which encourages them to make the next purchase with a good spirit, therefore, the customer's future is gradually created. Loyal customers are willing to pay more, tell more about the purchase, resist switching and also endorse the product with their friends, associates, and close relatives. Purwanto and Hapsari (2020, p. 9) argues that “quality consumer credit products reflect the complete range of products available in a banking company, which certainly allows customers to fulfill various banking needs at one bank. This makes consumers reluctant to move to other banks and become loyal”.

4.2 Conclusion and Recommendations

Based on the research findings, the following conclusions have been drawn: there is a significant and positive relationship between service quality and all its dimensions and customer satisfaction and customer loyalty. However, it was found that empathy, contributed to the highest variability followed by assurance and reliability. Furthermore, it was found that customer satisfaction and customer loyalty were positively and significantly associated.

Based on the findings and conclusion of the study, the following recommendations can be presented.

The ultimate priority of the respondent microfinance institutions should repose on empathy and assurance, bearing in mind the significant relationship of these two dimensions on customer loyalty. However, they should not disregard the significance of other dimensions such as reliability, responsiveness and tangibles because mean ratings suggest that the respondents agreed on the microfinance's provision in these three dimensions.

Further, the microfinance institutions should put more emphasis on the provision of quality products as well as charging fair credit prices (i.e. interest rates) to their customers. However, they should not disregard the significance of other variables such as customer service, brand trust and corporate image.

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